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Monitoring supply chains in the SDG era

Today's goods and services are the product of complex and sometimes opaque supply chains. How can we ensure that businesses embed the SDG principles throughout their entire operation?

By **Ruth Mhlanga**, Private Sector Policy Advisor, Oxfam

Announced in 2015, the Sustainable Development Goals (SDGs) offer an inspiring vision of a world without poverty. They also provide an opportunity for a wide range of stakeholders, including businesses of all forms and sizes, to contribute to achieving that vision.

The SDGs and the issues they contain are not new – they are a development of their predecessors, the Millennium Development Goals (MDGs). They also coincide with a longer-term trend, which started with a global push for responsible business conduct, that has seen more and more businesses bring sustainability issues into the mainstream. For

▲ September 2016, a fire at a garment packaging factory outside Dhaka, Bangladesh. Despite the outrage and industry-wide response following the Rana Plaza tragedy, much more is still needed to create safe workplaces

some, the SDGs now present a higher level of ambition, which in turn will call for more action from the private sector to turn that ambition into reality.

However, the true test of company leadership on sustainability will go beyond merely matching core business activity to the SDGs. It will necessitate a willingness to improve commercial practices in supply chains to achieve a world without poverty.

A key part of the SDG footprint of global companies happens through their supply chains. This is often where the poorest, most marginalised and most voiceless individuals are affected by corporate decisions. This is why addressing issues in supply chains has been a major focus for those working on the sustainability agenda for many years.

Business leaders are seeing the value in addressing and investing in sustainability and social responsibility to build and manage their supply chains. But there are still many instances where narrow interpretations of the business case limit ambitions.

Broader impacts

It may not immediately yield benefits for businesses to invest in addressing issues such as land rights, farmer incomes, living wages, women's empowerment or greenhouse gas emissions. Too often, considerations of cost, quality and risk dominate decisions related to supply chains. Few companies incentivise procurement teams to foster sustainable and equitable supplier partnerships.

Decisions often ignore the broader impacts – the externalities – of business activity. Materiality measures apply the lens of risk and are often skewed towards short-term profits. And rarely do stakeholders such as workers, farmers and communities have a voice in the priorities set by companies for their supply-chain issues.

Oxfam's 'Behind the Brands' campaign highlighted the importance of ensuring that companies monitor a range of issues that their activities affect and consult with the affected stakeholders. The Behind the Brands scorecard focused on seven issues, while the SDGs focus on 17. The challenges facing companies – and the world – are not getting fewer.

The UN Guiding Principles on Business and Human Rights (UNGPs) have been the springboard for many initiatives. However, as awareness of this responsibility has increased, so too has a recognition of the limitations of the conventional approach to tackling these issues – social compliance auditing. As highlighted in a 2013 report by Shift:

"Despite the hundreds of thousands of social compliance audits conducted each year to ensure minimum workplace conditions in companies' supply chains, there is little evidence that they alone have led to sustained improvements in many social performance issues, such as working hours, overtime, wage levels and freedom of association."

There are a number of reasons for the inadequacy of audits. Two issues highlighted in both the Shift report and a 2016 Oxfam report are that: a) conventional methods of corporate responsibility in supply chains cannot overcome wider systemic issues and b) sustainability approaches suffer from biases in a company's structure, governance and priorities.

Wider systemic issues played a part in the Rana Plaza tragedy in Bangladesh in 2013, which sparked global outrage and caused deep concern for many global brands and retailers. The disaster highlighted systemic challenges with workplace health and safety, substandard wages and excessive working hours. For sectors that are hypersensitive to cost, two things are clear.

First, the driving forces behind these issues are beyond the ability of one company to fix. Second, even where a company can do more, unilateral action can create competitive disadvantage. For good labour standards to become universal operating conditions, companies need to spend more time analysing the wider system that keeps workers trapped in poverty, as well as auditing their suppliers. Embracing in full the broad range of issues covered by the SDGs can help companies understand both the wider system and their own impact.

Sector-wide collaboration, with the right legal framework and enforcement, could ensure that beating the competition by undermining labour rights is not an option. This levels the playing field for the most progressive companies, since laggards would have to catch up and this dynamic would contribute to systemic change.

Unfortunately, much still depends on the type of industry and thus how exposed companies feel they are and the associated risk, especially of reputational damage. Some companies are fairly advanced in their approach; many others have fallen behind as they don't see the urgency to act. At times, small and medium-sized enterprises fail to engage on the issue as they do not see it as relevant, given their size.

In many cases there will be no substitute for government regulation to protect the rights and interests of workers, farmers, communities and the environment. Regulation creates an even playing field for business, where more progressive companies are not disadvantaged.

Governments have a crucial role in establishing baseline standards. Examples include the USA, where the 2009 Dodd-Frank Act requires companies to publicly report on due diligence in their mineral supply chains.

More recently, the California Transparency in Supply Chains Act and the UK's Modern Slavery Act are helping reframe this discussion. France has adopted draft legislation that requires companies to implement due diligence plans to identify risks to human rights and the environment

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▲ People carry bags of tin ore, manganese and coltan, which is used in mobile phones and computers, down from the Mudere mine in the Democratic Republic of the Congo. For many years mining proceeds fuelled the region's wars

(including of their subsidiaries and suppliers). Concrete regulations that are enforceable at least at national levels are a step in the right direction. Voluntary measures like the UNGPs, standards such as Rainforest Alliance Certified, Fairtrade and UTZ Certified, and companies' own schemes all have limitations. Many only cover first-tier suppliers, leaving scope for problems further down the supply chain.

Transparency and scrutiny

Biases in company structure and priorities undermining sustainability can be seen in the issue of the competing concepts of the legal minimum wage and the living wage. While statutory minimum wages are established in 90 per cent of countries, in many cases wages paid to workers are not compliant.

Where there is compliance, minimum wages may not meet the basic needs of workers and their families. Where companies treat wages as a cost to be minimised, rather than as an investment in the communities where they operate, wages risk being pushed lower. Individual company structures and incentives would impact wage cost less, if labour rights were pre competitive.

Businesses have relied on external certification schemes, but some now realise that these are not enough and that they have their own problems. Companies must increase direct contact with their suppliers to actually be able to ensure provenance. It is not only by rigorous controls that we will see enduring change for the better. Controls are no substitute for engagement and a long-term relationship with suppliers, workers and communities to develop durable and fairer solutions.

Fortunately, there is now more transparency and scrutiny from the media, NGOs and the public on companies' claims. But this can never be exhaustive and cover all products and supply chains – the pressure to change also has to come from within businesses themselves. Companies that have pledged to change can demonstrate their credentials by calling for national commitments that would ensure all companies meet minimum standards.

The ambition of the SDGs means that monitoring supply chains will require more than a few tweaks. Companies must consider going much further and fundamentally re-write the business models and practices of their supply chains. This will ensure that more power and more of the value generated by companies' products reaches the producers and workers. ●